

AGDC Board Members Announcement  
2/19/15

GOA: Today I want to announce the three new positions on the Alaska Gasline Development Corporation Board. The board members will be Rick Halford. Most of you know Rick's background. He's been in . . . he lives in Dillingham. He certainly has been from Eagle River in the legislature, but his family is in Dillingham; his kids are in school in Dillingham.

Hugh Short – he is a former mayor of Bethel. He was born in, grew up in Bethel. He's an Inupiat Eskimo. He has been involved in the financial world since then, involved in a number of business in the North Slope. And he is involved in a number of financing entities.

And lastly, is Joe Paskvan from Fairbanks. Joe is . . . most of you know Joe as well. He is a former legislator and has a . . . certainly has a strong interest in oil and gas issues and bringing a gasline through Alaska as well. So those are the three appointments.

I have put out and I met yesterday with House leadership, Senate leadership to talk to them about moving forward on the gasline, on ASAP, AK LNG. I spoke with the appropriate representatives, the President of different divisions of Exxon, BP and ConocoPhillips. I spoke with Neil Duffin of Exxon; Ryan Lance, the President / CEO of ConocoPhillips, Janet Weiss, President of BP Alaska and Russ Girling, the president of TransCanada Pipeline to explain to them what I have put out in the way of a press release about moving forward on AK LNG as is structured now; assisted in every way we can. If there is any way to expedite that effort, I will look forward to doing that.

At the same time, taking the small volume ASAP line as was established some time ago for a small volume line. Now that those restrictions are lifted, additionally, as some may remember, we had a somewhat self-imposed limitation on the volume of 500 mcf per day. That volume limitation was lifted as of April of last year. So, because it's no longer there, I am looking at up-sizing that volume to a larger volume that will go to tidewater in the general location of where it is or further. Right now it takes it to Cook Inlet, so it will continue on to tidewater someplace. It would be at Point McKenzie. It could certainly be at Nikiski as well. And I really think that at some point the two projects probably could blend. But until that time, we will do them as stand alone projects.

The liquefaction piece of that will have to be done by somebody else. The authority is not there for the State to do a liquefaction piece. The concept of the ASAP line is more of a market-driven, market participant where the markets / the off takers would be involved and that's typically what we see around the world. . . one that we think there is an appetite for that. So we will advance that as well. So we continue with parallel projects, but pretty darn close in size. Additionally, whether

it's going to be a 42 or 48 inch line is something to be yet determined.  
Questions? Nat.

Question: Nat Herz, Alaska Dispatch News. Just wondering, does your shift in the plans for the ASAP line, in your view does that require legislation or money; and if it requires money, roughly how much is involved?

GOA: You know, I don't think it requires either of those. I think there was forward funding for a number of years. A significant amount of money was put into that. We asked for a, sort of a slow down on the burn rate of that project when we asked for the stand down on the mega projects, so I don't think they will be asking for any money and what we're talking about is well within the legislation that is there. So I'm not looking for any legislative or monetary modifications at this point.

Question: Steve Quinn, Petroleum News / Reuters. These three gentlemen have a lot of experience in public service and policy. What do they bring to the table as far as expertise in the pipeline?

GOA: They are Alaskans. And I believe the our expertise needs to come from the administration and when we're drawing upon our board members to be the experts, that's sort of an unusual arrangement. I have not seen that typically around other forums. I'm looking for rather than bringing in our expertise as board members and I do think they are experts. I think any of these people who have lived in Alaska who have bought diesel fuel by the 300 gallon loads are experts in some respect. So I don't look at the expertise from the board. I look at the expertise from the staff and from our professional staff that we have.

Question: Becky Bohrer, The Associated Press. Governor, in the op ed you said whichever project is first to produce a solid plan and conditions acceptable to the State. Some may argue that SB 138 laid out a plan. And so when you're talking about a solid plan, can you explain that a little bit. And what kind of time line are you expecting will be needed for ASAP to do any reconfiguring that might be needed to meet what you laid out?

GOA: You know, there's not really a lot of any reconfiguring that needs to be done. I think that actually looking at an increased volume, what that would look like, so what it would look like on the economic side. So you know 138 is a very broad vehicle, and is a good vehicle, one that the legislature put together with a lot of hard work and we're going to continue to use 138. There's a lot of things in 138 that is good for Alaska. We think there is . . . so we are comfortable with how that is laid out.

Question: But, when you say with a solid plan, what does that mean? Agreements? Can you define that?

GOA: Well, the solid plan, is really from an economic stand point. In other words, I think that we will approach the ASAP project a little differently, just because the make up of it is one that we at this point own 100% of. So versus on the AK LNG, where we have a 25% held through TransCanada. So that will continue on its own with its own method. But the solid plan is one that is good for Alaska that is financeable. That the market are as off takers. You have the greatest plan in the world, if you have no customers, it really doesn't do you any good. That's what we mean by solid plan. Rhonda.

Question: Rhonda, this feels very different than what we've heard you say before about ASAP. Has something changed in your attitudes towards ASAP and is it the preferred line for you because it is 100% state owned?

GOA: The preferred line for me is one that gets built. That is my preferred line. And I want to make sure that one gets built. I'm not sure that betting everything on AK LNG is the right approach. I think that as far along as we are with ASAP I think that makes sense to have, to advance that at the same time. You know because then it require putting additional funding in, that's already in place, a lot of the pieces are already there. And the other piece of it is the removal of the limitation, 500 mcf limitation. That volume restriction always maintained, kept the economics from really working. So with that gone, then we have a very different opportunity. Alexandria?

Question: Rhonda, just a quick follow up, you didn't seem very high on ASAP during your campaign, and in fact it was one of your lists of projects to be moth balled.

GOA: It was. And that was at a 500 mcf limitation. With that limitation still in place, that was very difficult. Now I look at AK LNG and I've met with them a number of times and I think that they are well intended participants. I am impressed with what they've done and their attitude and the work that they are doing. I celebrate with the mayor of the Kenai Peninsula Borough, the announcement of a contract signed yesterday with CH2MHill. Those are good things. But that doesn't give me the comfort that we're going to actually have a project. It doesn't give me the comfort that we're actually going to have a final investment decision that the project will be sanctioned. So, I guess what's different for me on that issue since the campaign. . . the campaign, that was looking at a smaller volume line that we would have to put money into every year to make it work. That was developed back when Cook Inlet was in a significant decline on gas. Now we are exporting gas from Cook Inlet. So the world has changed since that was initially developed. And so must we. Alexandria.

Question: Alexandria – (inaudible) . . could we see changes in the terminus as well away from Cook Inlet?

GOA: There is no terminus on ASAP. The terminus is in Big Lake and I don't think you can get a tanker into Big Lake. So there will be a terminus. That is something that we . . . but again we won't be doing, the State will not be doing the liquefaction

piece because that's not provided for within the legislation. So where that's going to be, that's yet to be determined.

Question: so it's not necessarily Nikiski where it will be (inaudible) where the gas will be produced?

GOA: It could be, you know it could be. If applied for an export license, there's a location there. You know, there won't be two gas lines. That's what I can say for sure. I will make sure there is one gas line, but I'm pretty sure there will not be two. So maybe some of the discussion yesterday with some of the companies is a way of sharing information that is good for both projects in some way. So I don't think we're going to have any issues associated with that.

Question: Adam – Governor, two questions on the board appointments. (1) are they being subject to any kind of confidentiality agreement or is there going to be transparency in the way they exchange information with some of these producers in these closed door meetings?

GOA: Well, you know, I'm not a fan of that. So we'll look at the . . . there are two different levels of confidentiality. If its . . . on that one, I'm not comfortable with the confidentiality agreements, so I've asked my commissioners to sit on that, to not enter into that. I don't have any issues of closed door meetings and negotiations, but that was a . . . but I thought that level of confidentiality was not something that I was comfortable with. So I will have a discussion with them about that. I assume my position will be the same with my incoming commissioners, I'm sorry, incoming new board members as I have done with other commissioners on that one.

Question: And one more quick follow up on that too, that the statute says that these folks have to have significant experience in oil and gas to be confirmed. Do you think they will live up to make that confirmation under the words of that statute?

GOA: I do. And I think that they will stand side by side with Dave Cruz as well as John Burns out of Fairbanks and have no problem with that at all. So I think that's fine. Mike?

Question: Did you get feed back from the industry that you can relay, that you talked to them . . . what did they tell you that you might tell us?

GOA: Well, you know I was pleased with my discussion with each members of the industry that I spoke with. It was a positive discussion. I think they understood my reasoning for it. I just, I said I just couldn't bet on one particular project. I didn't really receive any push back from them on this. I thought it was, I would characterize it as a positive discussion.

Question: This is new to them. But are there plans to talk more specifically with the industry in the near future about how this fits together?

GOA: How this fits with what they're doing?

Question: with what they're doing. I mean you had preliminary discussions. Now what happens?

GOA: Uh ha. I think now we see is there any synergies of working together on some pieces of it so there's not a duplication of costs. I'm not a real fan of duplication of costs, especially with our fiscal situation. So I assume that will be the discussion going forward.

Question: Juneau Empire: The three producers on AK LNG have stood by the project. I was just wondering what changed to make you not want to bet 100% on it. Is there some conversation that you have had?

GOA: Just knowing what I see how the world works. There is no company involved in AK LNG that's betting 100% on Alaska, on this project from Alaska. They all have projects around the world, other projects around the world. So I'm just not comfortable, . . . this is such a critical . . . the other thing that has changed, sort of getting back to Rhonda's question, you know we are in a pretty significant financial deficit. You know, we need to get our gas to market. We need to get our gas commercialized and developed. Approaching a 3 ½ / 4 billion deficit, putting a resource back in the ground every day is a tough thing for us to do. So we need to make sure that this project does get commercialized. And you know, when the two do blend together, if that happens, so much the better.

Question: Do you foresee that when the staff finds out that the benefits the state is going to receive (inaudible) oil pipeline?

GOA: Well, I'm hoping for more. I'm hoping it's more from the standpoint that I want to bring down the oil pipeline brought a lot of revenue to Juneau and was distributed throughout the state in different forms. But I want to bring down the cost of energy. I want to have the value added opportunity of low cost energy. And it takes the. . . that is my biggest criticism of a small volume line is that it doesn't have the economy of scale bringing down our cost of energy. So, you know, here we are the richest resource state of the nation, and yet we don't do much with our resource development because of our cost of energy. So I think of it even more, I'm very optimistic . . . maybe not so much on the monetary side, maybe it will . . . on the monetary side. . . is the importance of gas is rising around the world. But also on the mining opportunities we have. You've heard me making cement north of Fairbanks and putting on the Alaska railroad, but we need low cost energy to do that. So I see it much broader than oil, I really do.

Question: What kind of a range in volume of a smaller line would you see? Do you have a range?

GOA: Um, I'd say the maximum range volume you can get through a 48-inch line with a maximum compression is about 5.7 / 5.9. So that would be the maximum side.

There is some question initially about how much compression you have initially and that's something that we will certainly look at and see what makes sense on that. But the range will be obviously a minimum of the 2 bcf, around the 2 to 2.7 range. Alexandria?

Question: When you were in New York earlier this month, did you talk about the cost of how financing with this larger line would work and how the financing (inaudible) AK LNG (inaudible).

GOA: We did not. In New York we were in bond rating meetings and so we did not talk about the financing. We did talk about the largesse of the resources. The largesse of the amount of gas that Alaska has. Probably the largest amount in the world that has not gone to market. So we did talk about that. How we're going to get it to market, we did not talk about that. But to answer your question, what I think you're asking, is about how would a project like this be financed? It would be . . . on project financing. It would be based upon . . . on the market involvement, it would be based upon long term off take contract with the market. I expect the market would be an equity participant in the project all the way up the . . . where it's integrated. So that's how it's financed on a . . . off take contracts and with the participants that are in it. Rhonda?

Question: Governor, what I believe what SB 138 has in a way with AGIA and limitations on a smaller line, are there options similar to increase the volume. So why now are you sort of, when you could have been (inaudible) options?

GOA: Well, adding 138 itself did not take away that limitation specifically. It was further negotiation after that cause it to come away. So that's one piece . . . is the volume issue. The second issue is, we absolutely have to have . . . I mean how many times have we looked at a gas pipeline over the years, over the last 37 years, how many times have we started over. So it's really critical that this actually happen. And so it's a bit of belts and suspenders I certainly acknowledge that, but we have to do everything to assure that it goes forward. And the other piece of it, is that I did not want to start over again. I did not want to be . . . other administration occasionally have come in and start over . . . I'm not, I'll play the hand that we're dealt. It's not a bad hand. What they did on 138 is good legislation. So we'll follow with that.

Question: . . . clarifying that you want it to be a bigger volume . . .

GOA: absolutely.

Question: Is this kind of a turning point for you?

GOA: Yes. It has to be large. . . I've always felt that it should be a larger volume.

Question: Matt Larson - Fairbanks Daily News Miner – The big sort of difference in this project, I think, that I see that there is an opportunity for a much larger state ownership of this line. Right now the line is 100% owned, AK LNG the maximum

of 25%. But you know the state probably can't pay for this whole thing, so what's the, where's that kind of level of percentage that you like to find, to end up at, I mean if you bring in equity investors? 50%? 60%? What's the kind of ideal and how big of a reasoning is that behind the switch?

GOA: You know, I am a pretty big proponent of Alaska having the ultimate say on this. And when we go in and give it . . . transfer all the ownership over to others, we sort of lose that opportunity. So when we get down to 51%, we'll have to make some tough decisions. But to be honest with you on percent, as long as we're at the table, as long as we're inviting those to the table and the consortium is all aligned, that's really my test. Matt.

Question: Matt, Alaska Dispatch News. There has been a lot of discussion about alignment and state alignment with the producers on this project and heard from some folks this morning that this new plan could do sort of a parallel larger pipeline, that state control sort of changes the relationship between the state and the oil companies could be sort of less cooperative, more competitive, like Rep. Hawker sort of compared it to like if you have a basketball team that's playing together, all of a sudden you have one player that starts playing against the rest of the team. How would you respond to that?

GOA: Well, the team that we're playing with have competing teams all around the country. I guess that's a situation that we have. You know, in Prince Rupert, you know Exxon, through no fault of theirs, they are finding a 3 million ton LNG export project out of Prince Rupert. I have not asked them to step down and not do any of their projects that they are doing elsewhere in the world. So certainly, no one should be asking us to step down and not do what's best for Alaska. Exxon is going to do what's best for Exxon; they should, that's their job – they do it very well. So does ConocoPhillips and BP. And they have done it very well in this state. But for us to step back and allow . . . we have no say what other projects they are involved in. And that's fine. But we certainly have a say about what we do. And so I guess the analogy that I would use is that as I look at the largest project and they are putting that together now, they announced it on January 12 of this year, and good for them. And I just got no push back from them at all on this because we're doing what we should do. We're starting to act like an owner. We starting to act like we know . . . the fourth largest producer on the North Slope of gas is the State of Alaska. So we are acting like a producer. And we're going to have our options, and there's nothing wrong with having options to make sure that our gas goes to market and goes to Alaskans.

Question: Is there some degree of cooperation though ultimately that's going to be required given that the state, sounds like, doesn't actually own enough gas to fill a large pipeline itself?

GOA: Well, I think there will be cooperation. I mean, there are those companies, I think that would like to get their gas to market without taking on the risk associated with a gasline, LNG project. You know most places in the world, they sell at the

well head into someone else's infrastructure. That's typically the way it's done. We're sort of the anomaly here in Alaska because we see that on the Trans-Alaska oil pipeline, we think that's done all over the world. That's typically not the way it's done. So, it's not inappropriate for the host government to be have, to be involved in it. Becky?

Question: On the issue of confidentiality, could you make clear as to, and what is your concern is, you have concerns, where you have concerns of them signing confidentiality agreements. The ADGC Board had asked the ADGC attorney and the attorney general for a ruling on the implications for conflicting numbers not signing, not participating, has that been done?

GOA: I'm going to have the attorney general answer that question. Craig?

AG: Craig Richards, attorney general. So I just had a conversation with counsel for AGDC yesterday I believe. And they are in the process of working through the governor's concerns and in particular to put in place a system whereby public information can flow to the board and consequently, the people of the state of Alaska in a public and forthright manner. But that recognizes the practical reality that some technical data will need to be confidential because, otherwise, you know you can't do a big project like this. So they are putting in place, they are working on a system to sort of, sort the two types of information, that which is validly confidential under Alaska law, and that which doesn't really need to be confidential so that the people can be informed.

Question: Speaking of statutes, as the appointments go, the statutes talk about the individuals' expertise in pipeline construction and large project management. Where do you see that these three kind of fit in?

GOA: Yes, I think they fit in. I mean, Hugh Short certainly has financing abilities on projects he's been involved in. I think that Rick Halford has. . . I'm very comfortable with these individuals. I look at John Burns, the chairman of the board, an attorney out of. . . not disparaging attorneys obviously, but an attorney out of Fairbanks. He certainly meets the qualifications a well. You know, I like a group of Alaskans that their expertise is, you know, a lot of time in Alaska, a lot of time paying for the high cost of energy, knowing the importance of how critical this project is. So that makes good board members to me.

Question: Joe Paskvan?

GOA: Dave Cruz as well. Dave Cruz has lots of experience on the North Slope with Cruz Construction what not. But again, you have to. . . our expertise is not going to be board driven. Our expertise is going to be administration driven by the administration of AGDC.

We need to take some questions on the phone here. Just a second.

We have no questions over the phone line.



Question: Adam Pinsker, KTUU. Just asking, do you think if there is a lead effort to get the ASAP line built that is 100% owned by the state, are the four energy partners for AK LNG, are they going to see that as competition against them? Are they going to be, maybe, a little bit hesitant to proceed with this process?

GOA: I wouldn't think so. I mean, they have competition with each other all over the world. They are used to competition. I'm not sure they are going to see that as a threat in any way. I certainly don't think so. I have not sensed that in any of my discussions with them. It's all been very positive and well driven to make sure it keeps positive. What not. So I don't look at competition as a bad thing. If I did, I would ask them to stop all their projects around the world and focus solely on Alaska. They're not going to do that. They shouldn't do that. They are not going to do that. So we need to make sure that we have. . . and you know because we're 100% owned at this point by the State of Alaska, that's an advantage. We can go in and determine who else comes to the table from the market side, who makes sense for this project. Alexandria?

Question: On the campaign trail you were critical of the compensation level of some of the current executives at AGDC. When making your board appointments, did you try to find people who were aligned on this issue and should we see changes in the level of compensation in hiring at AGDC?

GOA: You know, you'll see, we'll see. We will sit down, the new board will look at that and see what makes sense. I don't have, that's not my authority to do that. And that's up to the board. You know, what we're doing across the state and everything else. I would anticipate there would be some change in that compensation.

Question: This is a follow up. Do you have an opinion about whether the, I don't know if it's the executive director or the president, Dan Fauske sticks around. . . have you given any instructions to the board members about that?

GOA: I have not talked to the board members about that. No.

Question: Do you have a personal feel on whether you should be. . .

GOA: I'll sit down, I'll sit down with Dan. I've known Dan for 25 years or so, a long time. He's done a very good job thus far. We'll sit down and have a discussion about this change, this method going forward and see how that works.

Question: Do you feel that an all Alaska gas pipeline will help (inaudible) get their gas into that pipeline? And secondly, is your administration going to actively pursue partnerships with the Japanese since they are actively chasing us?

GOA: We will actively pursue a relationship with all of the market, certainly all of the Asian market. In 2012, there was an open season under AGIA, in which 200% of the market necessary for a large volume line came and participated in that. So we will be looking to all market opportunities to participate in that project. Becky?

Question: I just want to be clear something, under the prior administration, the ASAP line was the, you know, something of a fall back, we've heard ace in the hole, we've heard talk about the two lines merging. So aside from the fact that we are looking at potentially a supped up project, is anything really different in terms of a course change, or is it just something, a change of composition of the project?

GOA: You know, really what's changed the most quite honestly is the volume. Turned it into an economically viable project whereas before it was not. And so, the question was, well do you shut it down and bet everything on one or do you size it to what is appropriate for the economics of the market. And we've chosen to size it to the economics of the market.

Question: Juneau Empire. I was wondering how long will you pursue both of the different projects before deciding which way you will ultimately go?

GOA: Well, that is a little bit of an unknown. When a project goes to projects sanction or FID basically saying that the companies have made a decision that they are going to move forward, then that's a big day. There will be a lot of smile on a lot of people's faces all across the state. But we're not there yet. That's out potentially three or four years on AK LNG, I think 2019 is the date for that. So we're not there yet. You know, at some point, if it makes sense to blend the two, then we will. And I'm not trying to force that happening, but if it makes sense from an economic standpoint, then we'll do that. Rhonda?

Question: One of the problems with AGIA according to its critics is that it didn't have the producers involved with at the table. With AK LNG, proponents have said everyone is at the table that's why this has the most chances for success, partner. It seems like the ASAP line as you're looking at it doesn't have the producers at the table.

GOA: You know.

Question: It's kinda like going back to the AGIA concept.

GOA: Ya. It's not really going back to the AGIA concept necessarily. The producers I guess could be at the table. They are at the table on a project that we're involved in and I think that's a good thing. So I think we are sort of betting on either horse at this point. The good news is that both of them are going to tidewater. My biggest concern with AGIA was going into the wrong market, the market that didn't exist. And fortunately, that didn't take place, but that was a lot of time and expense on that. So this, we are all looking at the same market, the same market that Exxon is looking at out of British Columbia for one of the largest LNG projects in the world. So there is no question where the market it, that part we have alignment on. Before we did not have alignment on that necessarily. This isn't designed to keep the producers out. The producers are here working with us. We are working with them. Marty Rutherford, the deputy commissioner of DNR has been doing the leg work for us with that, that will continue. This isn't

about excluding anybody, this is about including others. With that, I've got a 1 o'clock. I want to thank you very much for coming. Good to see lots of folks. Follow up questions, I leave for DC tonight. So I'll be a little bit hard to get ahold of. Grace knows how to get ahold of me. Thank you.